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The Bond Buyer 14th Annual California Public Finance Conference Pre-Conference Workshop

“Unfunded Pension Liabilities”

Moderator: Parry Young

Director- Standard & Poor's

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Pension Liability

- What is an unfunded actuarial accrued liability (UAAL)
- History/background/nature of the problem
- Options for resolving a UAAL
- Pros and cons
- Other postemployment benefit (OPEB) liabilities



UAAL

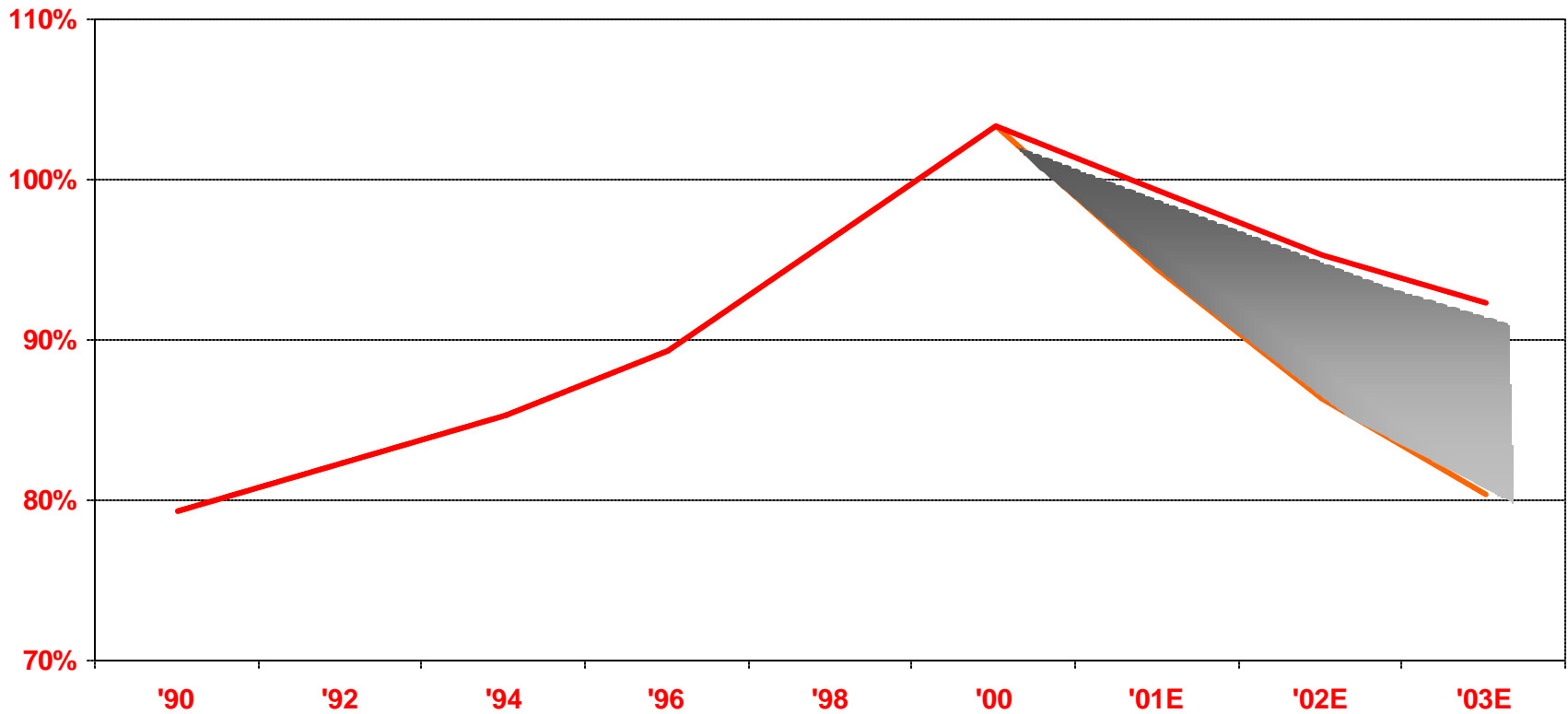
- UAAL = actuarial accrued liability minus actuarial value of assets
- Basically – the UAAL is the adjusted value of benefits promised minus the adjusted fair market value of investments
- The UAAL is a credit factor in S&P ratings



UAAL History 101

1990 - 2003

Funding Ratio



Year ending June 30th



Options for Resolving UAAL

- Alter benefit structure?
- Sell POB?
- Pray for bull market?
- Increase contributions?



Pros and Cons of Options

- Benefits are hard to change but it's been done
- POBs have a lot of credit-related baggage
- Can't depend on bull market bailout
- Increasing contributions adds to budgetary pressures-
but most employers have to bite the bullet



OPEB

- OPEB = retirement benefits other than pensions – mainly healthcare-related
- GASB is requiring that OPEB liabilities be accounted for in a similar manner to pension liabilities
- The size of OPEB liabilities is expected to be huge
- Inadequate funding of OPEB liabilities may affect credit ratings



Panelists

- William Pollacek, Treasurer – Tax Collector, Contra Costa County
- Rick Reed, System Actuary, California State Teachers Retirement System
- Ron Seeling, Chief Actuary, California Public Employees' Retirement System